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WHAT WARREN S. STONE THOUGHT IN 1911

SLASON THOMPSON,

Director Bureau of Railway News and Statistics, Chicago

IFIND myself unable to agree with Mr. Warfield in his proposal to confiscate the net operating income of roads earning above six or any other per cent. The earning power of all roads in a given region is taken into consideration in fixing the reasonable and legal rate, and generally the most successful roads have the greatest weight in arriving at that rate. The rate once legally established, the extent of the net return should be left to the efficiency of the management in earning it. If there is to be any diversion of net income from the road earning it, it surely should not be based on a minimum return of six per cent but on fifteen or twenty per cent or some figure beyond which Congress decrees that net profits in any business, railway, banking or otherwise, coming within its purview, are excessive. But under any circumstances I do not believe in robbing Peter to pay Paul, no matter how rich Peter may be nor how poor and deserving Paul may be. As rates come out of the public, the graded income tax for the public chest would seem to be the means of making Peter contribute his share to the common weal.

Will a net return of six per cent, think you, attract new capital to the risks of an industry where the excess over that is subject to seizure for the common good? I trow not.

On the way down here I thought that anything I might have to say at this conference would count little toward the settlement of the vexatious problem confronting the people of the United States, but that words of truth and soberness spoken by Warren S. Stone, Grand Chief of the Brotherhood of Locomotive Engineers, in the calm past might carry more weight now than they did eight years ago. So I brought along a reprint of his speech before the National Civic Federation at its annual meeting in 1911, a few passages from which I wish to submit for your consideration. They need no other introduction.

“Recently,” said Mr. Stone, “the papers were filled with the statements made by a new star that had arisen in the labor world. ‘The railroads can save a million dollars a day.’ Think of it! Three hundred and sixty-five millions a year! When a man

comes forward with such a startling statement as that made by Mr. Brandeis, we commence to look around and ask questions we have a right to ask. Did he ever manage a railroad? No, he never did. Place him in the general manager's chair in charge of one of the great railroad systems, and he would be lost. You would have to put a bell on him to find him. Did he ever design a locomotive, or draft one? No, he never did. Did he ever shovel any coal into one? No, he never did. I have. I have shoveled more coal into locomotives than you could pile on a city block. Mr. Brandeis has had no practical experience, and knows nothing about the subject. Yet only yesterday he stated we could save five hundred thousand dollars a day on fuel alone. No railroad is at the present time throwing away a dollar, and, regardless of Mr. Brandeis' statement to the contrary, the American railroads are the best managed of any in the world. The men in charge of these great systems stand head and shoulders above the railroad men of the world. There is no other class of business that is operated on so close a margin, no other business where the details are watched so closely as on the average railroad. And yet Mr. Brandeis says they can save \$365,000,000 a year. He must have gotten that fairy tale out of some story book. * * *

"The individual shippers of the country are the very ones who reap the benefits of all rebates ever given and cause the present drastic laws for the regulation of interstate traffic to be enacted."

Right there I would like to interject the remark that it seems to me there has been a bewildering confusion of ideas as to shippers and the public. They are two very different interests. The former continually masquerades in the raiment of the latter, especially before the Interstate Commerce Commission, which apparently has never realized the deception. Mr. Stone did when he said :

"In the end, who pays the freight? The most superficial study of the question will prove to any one that the consumer pays the freight. The shipper does not pay a dollar of the freight. He is simply a parasite who lives off the consumer and the producer, one of the middlemen who take their toll and increase the cost of living."

In support of this view I might add that since 1900 there has been remitted in the reduction of rates to the shippers over, or nearly, fourteen billion dollars, not one cent of which has ever reached the consumer. You know that it has not, because you

know that in the meantime everything that the consumer has paid for has gone up.

And then Mr. Stone concluded his remarks with the following summary of the situation, more impressive, even now, than when it was spoken :

"I believe," said he, "that the masters of finance, such as represented by Mr. Morgan and others, are absolutely right when they say they have reached the limit of economy in railroad operation. I don't believe it is possible to do any more along that line, and I agree with them that anything in the future toward improvement will have to be by addition or increase to freight rates. There never was a time in the history of the railroads when so much was demanded as now. There never was a time when so much was demanded along the line of fast traffic, high speed, splendid roadbeds and a thousand and one other things, and there never was a time when the railroads were in need of more money to make improvements, build terminals and other things needed as now, and the only hope for them is in an increased freight rate. What is the result? Today in this country everybody is waiting to see what the Interstate Commerce Commission is going to do in regard to freight rates; business is practically at a standstill; there is a wave of uncertainty in the air; you may say it is all due to the wage movement. It is true we have had increase of wages throughout the country; but that doesn't begin to compensate for the increase in the cost of living during the same time and the same period. The increased cost of wages is not what is causing the increased cost of living at the present time. Every other commodity has had to increase prices except the railroads; everything they had is going up, not only labor, but everything else, and everything the railroads have to sell is going down, and unless there is a change of public opinion in the near future, some of the best managed railroads today will have all they can do to keep their heads above water, and they haven't the money and can't get it for the needed improvements they have to make."

Much water has gone over the dam in the eight years since these candid words were uttered. The Commission denied the relief for which Mr. Stone pleaded, with a few words of *manana* thrown in by Commissioner Lane. The average ton mileage receipts continued to drop from 7.57 mills in 1911 to 7.14 in 1916. The Adamson law added \$200,000,000 to the cost of operation and Mr. McAdoo's Order No. 27 and its supplements \$800,000,000 more, only partly offset by belated increases in fares

and rates. The operating ratio grew from 68.66% in 1911 to over 85% for the nine months ending September 30, 1919, and taxes increased apace. The government took over the railways to win the war, but, with a shrewdness unworthy of a great and just government, included the worst year in the record since 1908 in the test period by which the standard return was reduced fully \$100,000,000.

The situation today calls for an advance of at least thirty per cent in freight rates to meet the increasing wages which the Director General continues to order while refusing to order the increase in rates which he still has the power to grant.

And yet I have sat here and heard the question of what is the matter with the railways discussed from every angle but what I believe to be the correct one: A mandate from Congress to the Interstate Commerce Commission to reverse its traditional attitude toward the railways. The railway situation to-day is the result of the departure of the Commission from the purpose of its creation as announced by Judge Thomas M. Cooley in its first report, when he said: "The Act to Regulate Commerce was not passed to injure any interest but to conserve and protect. It had for its object to regulate a vast business according to the requirements of justice."

If the Commission would rise to the full measure of its vast powers and responsibilities, the railway problem would be solved without its asking for greater powers.